

How CSR and an Entrepreneurial Business Culture Go Hand-in-Hand.

The Private Sector in Chihuahua, Mexico.

The northern Mexican State of Chihuahua has a reputation for industry, innovation, and creativity. This progressive attitude is embodied by the region's business leaders who are part of an economic climate experiencing rapid change brought about by agreements such as NAFTA and industry privatization. The dynamism of the business environment is also evident in the local private sector's approach to solving social problems.

Origins of the Chihuahua Business Foundation.

In 1990 severe flooding devastated parts of Chihuahua City with the most severe effects hitting the very poor. To help solve the problem, the business sector devised and implemented an unusual and effective way to get assistance to those most in need. The business community approached the state government with a plan: a special tax to be paid by each of the 29,000 business enterprises in the region to finance much needed social programs. An additional tax of 0.2% of business earnings was implemented with the condition that members of the business community themselves would manage the funds generated. The overwhelming success in providing disaster relief and rebuilding the community through this new source of funding prompted the business community to ratify this 'Community Investment' tax permanent under state law. In 1994, the Chihuahuan Business Foundation (FECHAC) was established to administer these funds. Its creation was indicative that business leaders had come to two important decisions. First, the flood-aid, though successful, was reactive in nature. To attend to Chihuahua's social and economic inequalities a more proactive strategy was needed. Second, corporations recognized that the complex implementation of community development programs lay outside of their own core business functions and areas of expertise. A separate entity was needed if these programs were to develop the successful methodology and strategies to make them effective.

FECHAC.

The organization today is staffed by 41 professionals and managed by a 28 member advisory board of local business leaders. The Foundation's mission is to "contribute to the human and social development of Chihuahua's most vulnerable citizens through programs that provide assistance through the mobilization of resources created by business and society." The organization's culture is a reflection of the dedication of its staff. Its offices have a decidedly collegial atmosphere, and innovation and the sharing of ideas are encouraged. Serving on the Board is considered an honor. Members voluntarily give of their time and expertise. As a result, the organization is able to put 95% of its financial resources into programs keeping its overhead around 5% of the total budget.

FECHAC

Between 1998 and 2002 the Inter-American Foundation committed US \$272,514 to the Chihuahuan Business Foundation (FECHAC). Counterpart funding from a variety of sources in the private sector contributed US\$574,147 for this particular program.

*The scope of FECHAC's activities goes beyond IAF funded projects.

FECHAC's Success.

One of FECHAC's competitive advantages is its ability to collaborate with the private sector on individual projects. While many corporations are interested in collaborating with the Foundation as a member, they often have individual goals they want to undertake with a higher level of visibility. FECHAC is flexible enough to enter into other projects jointly funded by area corporations like ECOGAS, a division of the Fortune 500 company, Sempra Energy, that provides energy services to more than nine million people across four continents. With offices in Chihuahua, Torreon and Mexicali, ECOGAS is the first private company to win a government contract to supply natural gas to the city of Chihuahua and seeks to achieve and maintain competitive advantage through its emphasis on being a safe and responsible provider of energy. ECOGAS realizes that its product requires special attention and an educated consumer to safely handle it. Because of this, the company's first step in community engagement was an awareness and safety campaign. Later, ECOGAS provided gas, equipment, and maintenance free of charge to many of the areas under-funded schools. Other initiatives include: a program to clean water taken from the arroyos in this desert region, support of local firefighters, and a recycling program. While ECOGAS contributes directly to FECHAC through the tax, the company has learned to develop more sustainable social investment programs in conjunction with FECHAC.

Another attribute that contributes to FECHAC's success is its comprehensive infrastructure. Although it originated in the capital city of Chihuahua, FECHAC has well-organized and active chapters in every city of the state and works closely with Chambers of Commerce throughout the region. Though money for the projects through the tax is generated primarily in business districts of urban areas, the Foundation has been careful to fund projects throughout the state. In fact, 50% of the funds go directly to development projects in rural areas. FECHAC works hard to preserve a reputation of being a reliable, politically neutral, transparent and effective organization. Mexico is a country where many organizations have seen their effectiveness curtailed by being co-opted into political entanglements and so the Foundation has been careful to maintain a balanced composition of its board in terms of political and ideological representation. By the very nature of the organization, the Foundation expresses the will of the private sector with respect to their social development objectives. What started as an emphasis solely on infrastructure and the construction of schools and other buildings has evolved into a portfolio of programs that increasingly looks to support the strengthening of human capacity. Though still engaged in some philanthropic activities, FECHAC is continually seeking ways to make its programs more efficient. It has discovered that the multiplying effects of investing directly in human capacity have outcomes that sustain the investment well beyond the direct benefits of the project itself. The Inter-American Foundation (IAF) provided matching funds to undertake one such program to develop the capacity of micro-entrepreneurs.

The Micro-Credit Program.

Though FECHAC has many different programs, the IAF is directly involved in supporting its micro-credit initiative. The difficulty for micro entrepreneurs in accessing credit was a concern amongst the business leaders in Chihuahua. Only four years old, this program is

targeted to break even within the next fiscal year. The methodology employed to lend funds blends elements of group dynamics and individual responsibility. Groups of twelve people called Community Banks, each with their own small business, apply for a loan that is then distributed to the members, many of whom are women. Loan repayments are made monthly by each of the participants. As a group builds up a credit history, they are eligible to receive larger monthly loans. A monthly interest rate corresponding to the market rate is assessed, as well as a type of processing fee. More than access to credit, these fees allow for training in business development classes and the services of a FECHAC consultant for the entrepreneurs. Topics studied include accounting practices, inventory control, and quality control. The courses also serve as a place to exchange ideas with other micro-entrepreneurs. In some cases, resources made available through the credit fund have helped businesses to leave the informal sector and enter the formal business sector. Currently, FECHAC has a loan portfolio totaling \$300,000 USD that lends to approximately 76 community banks with a 1% default rate. The micro loans range in amount from \$80 to \$500 USD. The program has a successful individual savings requirement whereby borrowers must begin to establish savings accounts that amount to at least 20% of the loan.

That access to credit has significant effects on the lives of these small businessmen and women is very evident. One businesswoman has been able to change her entire line of business. Formerly, she sold clothing, white goods, or other personal items. As part of a community bank, she now specializes in jewelry sales and rather than doing all of the selling herself, employs a sales force of 5 who work on commission to distribute her products. As yet another example of multiplying effects, her two children are learning about basic accounting practices by helping their mother manage the business and keep up with the nightly totaling of the books.

The micro-enterprise development program is growing. Part of FECHAC's long-term vision for the program is that it separates from the Foundation and becomes an independent organization. This would allow for more specialized services to be offered, and more innovative ideas to be tested. The encouragement of groups of micro-entrepreneurs requires nothing less than the direction of an institution whose culture manifests the same spirit of entrepreneurialism they embody.

Lessons Learned:

- Through creating a tax to finance FECHAC, the Foundation has found a sustainable way to plan and implement social investment programs with minimal overhead costs;
- Long-term social investment programs can grow out of business response to a single emergency or extraordinary situation when program results are successful;
- Business can work together to achieve common social investment goals without sacrificing their individual social investment goals and/or images

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